

Alternative Investment Management (AIM) Program



**Joncarlo Mark
Portfolio Manager**

CalPERS Asset Allocation Profile: Total Invested Dollars

Fund Assets - \$150 Billion

60% Public Equities

28% Fixed Income

5% Private Equity

5% Real Estate

2% Cash Equivalent

AIM Overview

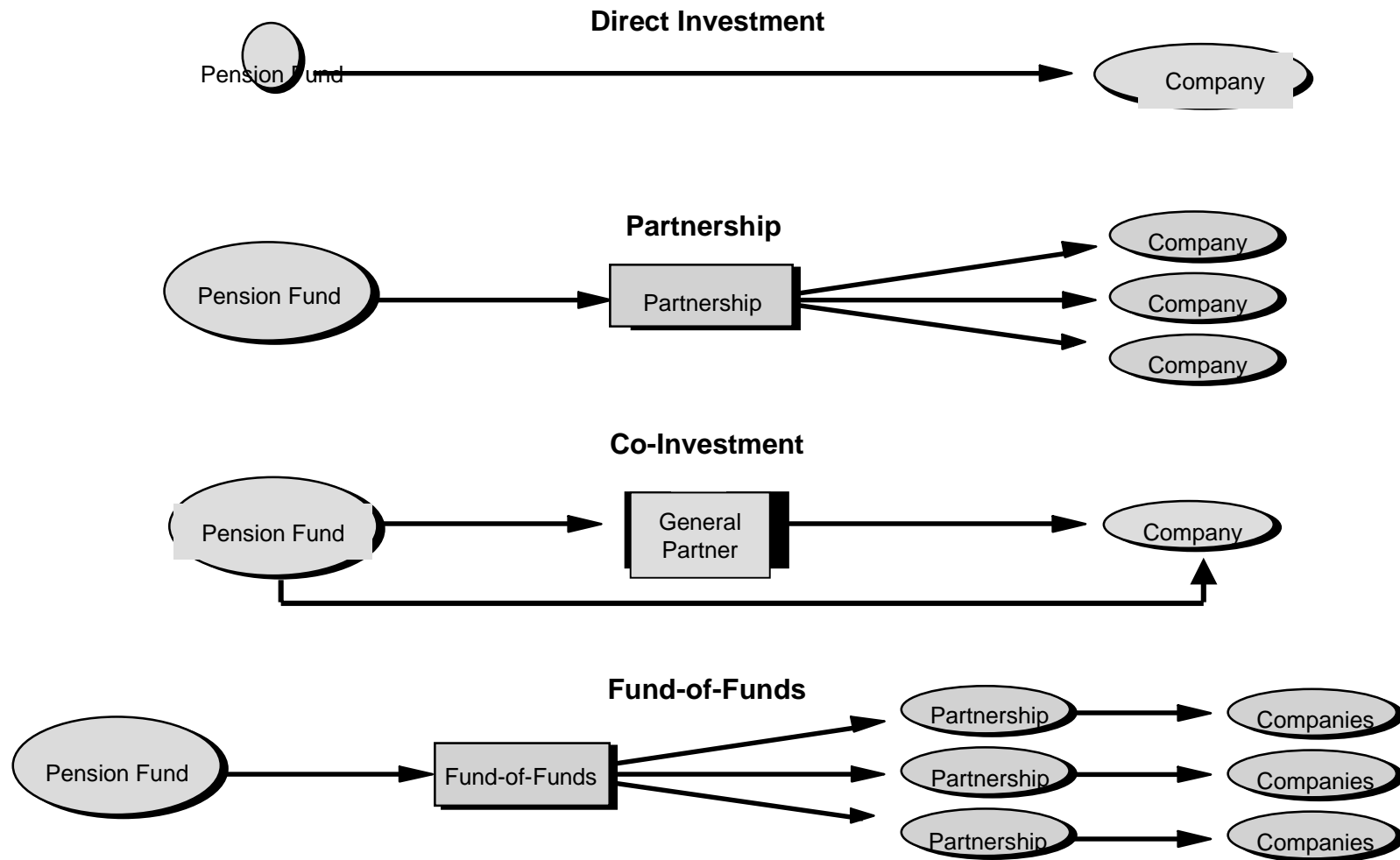
General Characteristics

- Started in 1990
- Current Asset Allocation Target: 6%
- Portfolio Size - \$19.8 Billion in active commitments
- Current Market Value: \$6.9 Billion
- Young portfolio (Average age is 2.9 years)
- Lots of “dry powder” to be deployed at trough in cycle

Performance Through 12/31/01

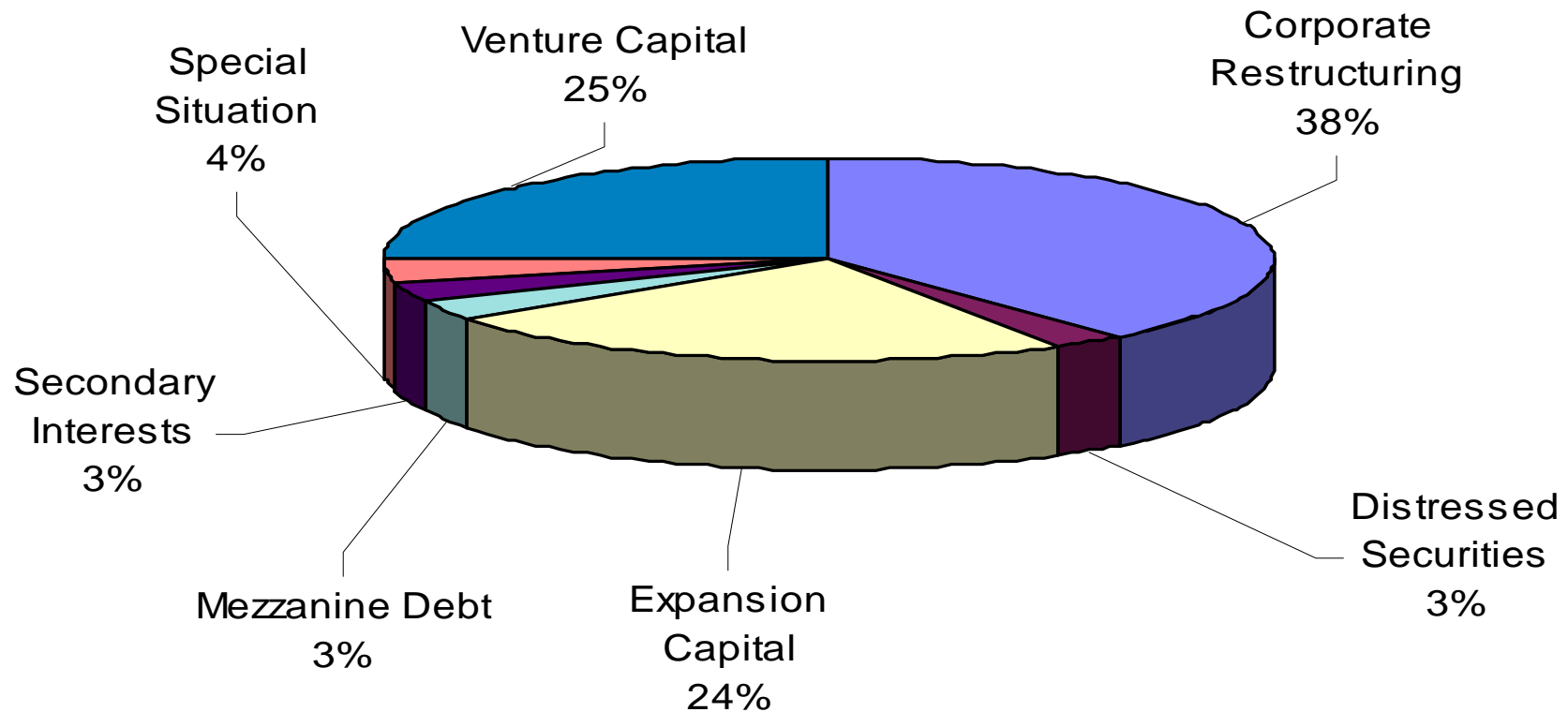
- Realized Gain Since Inception: \$4 Billion
- Return of Capital: \$2.9 Billion
- Cash on Cash Multiple: 2.4x
- Return on Fully Realized Investments: 23.5%

Investment Structures



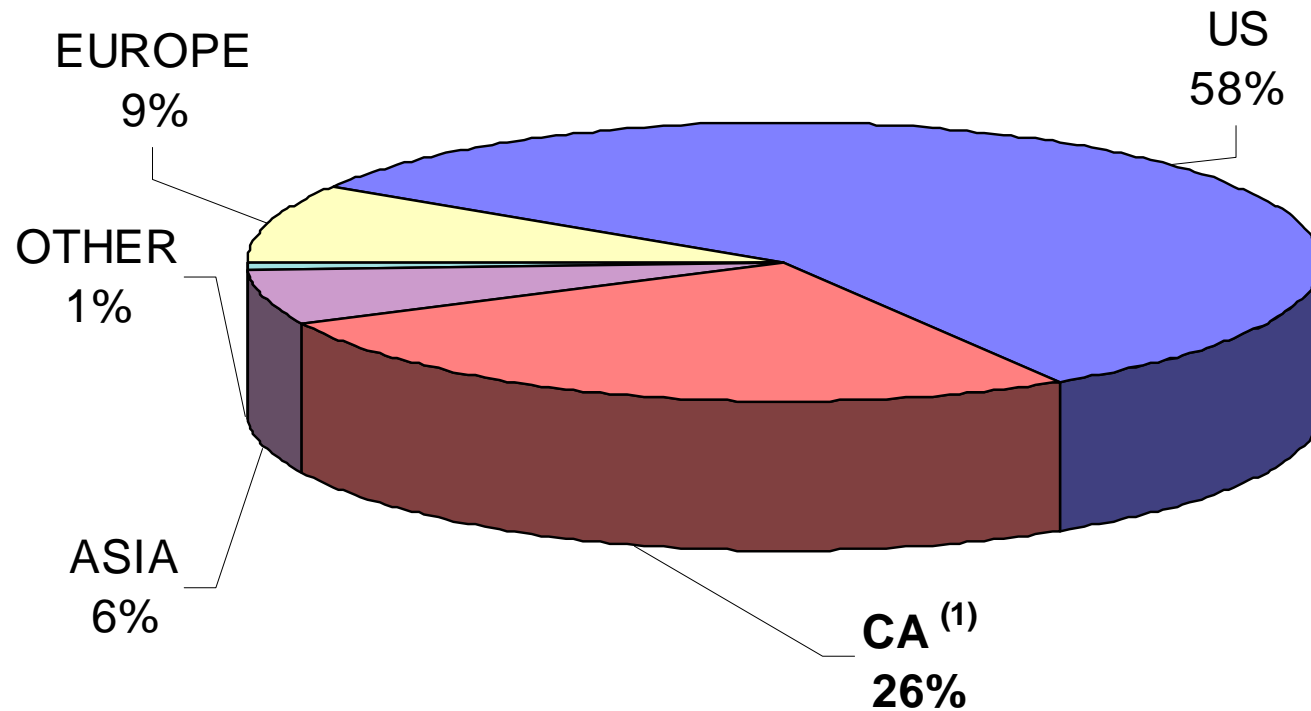
AIM Overview

Portfolio Diversification by Style



AIM Overview

Portfolio Diversification by Geography



California Initiative Program

Q

Program Overview and Mission Statement

In May 2001, the CalPERS Investment Committee approved an allocation of **\$475 million to 11 private equity investment partners** in a new investment vehicle called the **California Initiative Program**

The California Initiative will invest in traditionally underserved markets primarily, but not exclusively, located in California. The objective is to discover and invest in opportunities that may have been bypassed or not reviewed by other sources of investment capital. These opportunities should offer attractive risk-adjusted returns commensurate with their asset class.

UNTAPPED ASSETS IN UNDERSERVED AREAS PROVIDE ATTRACTIVE INVESTMENT OPPORTUNITIES

Urban/Inner city



- Strategic location near business centers, transportation, etc.
- Large, diverse labor pool
- Attractive local consumer market demand
- Government incentives
- Favorable access to real estate

Rural



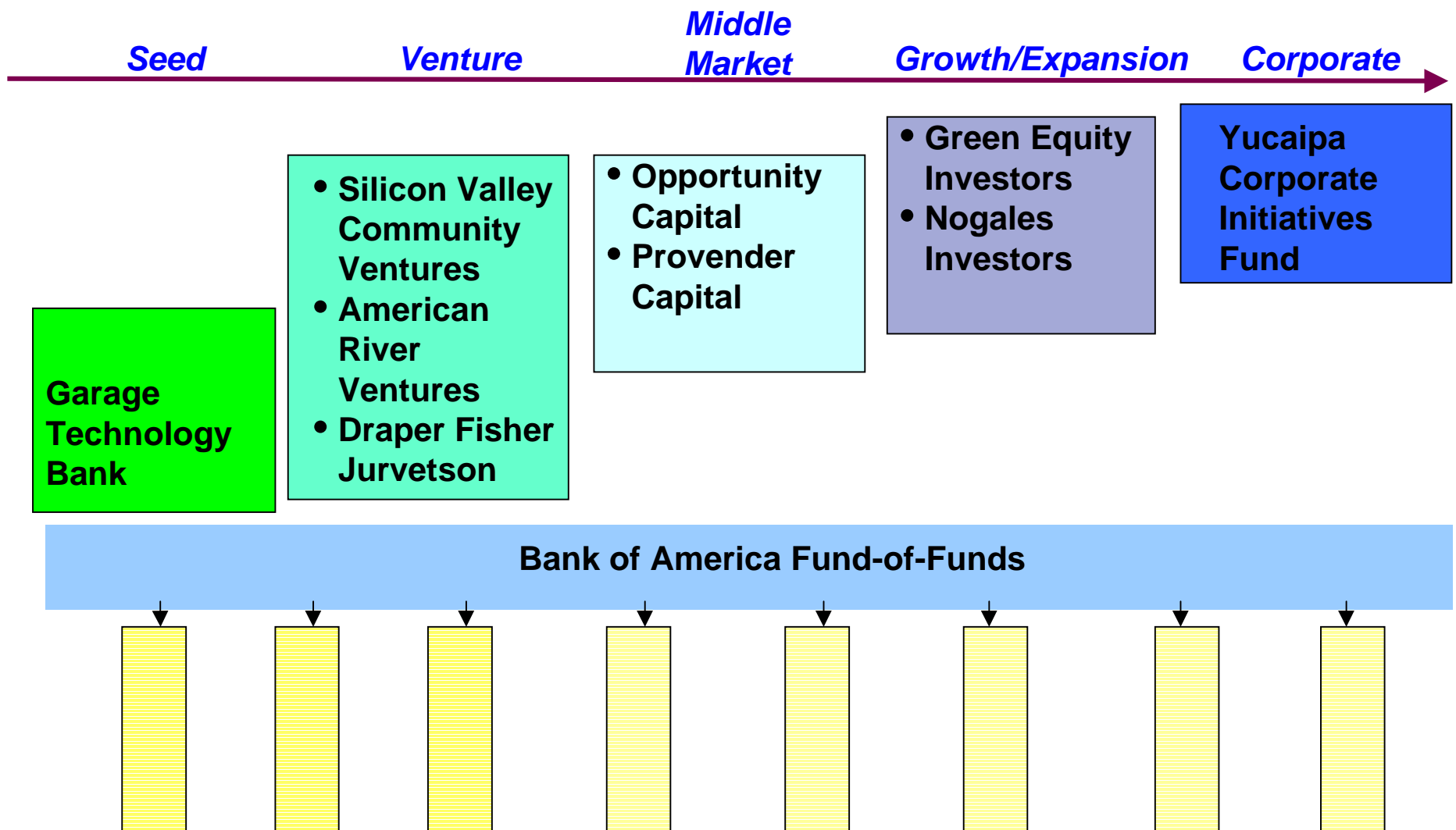
- Inexpensively priced land/office space
- Availability of full- and part-time, educated workers
- Lower cost of living environment
- Government incentives
- Recent technology and infrastructure developments that allow for convenient communication and access to information

Source: Michael Porter, "The Competitive Advantage of Inner Cities," HBR, 95310; "The Rise of the Urban Entrepreneur," *Inc.* magazine, May 15, 1995; company materials; interviews

The California Initiative Network



CAPITAL IS BEING DEPLOYED ACROSS THE SPECTRUM OF PRIVATE EQUITY



CA INITIATIVE INVESTMENT MANAGERS HAVE EXPOSURE IN NORTHERN, CENTRAL AND SOUTHERN CALIFORNIA



Selected Managers

CA Office Locations

American River Ventures

Sacramento

Bank of America*

SD, LA, SF

Draper Fisher Jurvetson

Bay Area

Nogales Investors

LA

Garage

Palo Alto

Green Equity Partners

LA

Opportunity Capital

Fremont

Provender Capital

LA

Silicon Valley Community
Ventures

SF

Yucaipa Companies LA, SF



* Bank of America has a network of 960 banking centers in California, with two major regional offices in San Francisco and Los Angeles

COMMITMENTS TO CALIFORNIA INITIATIVE PARTNERS

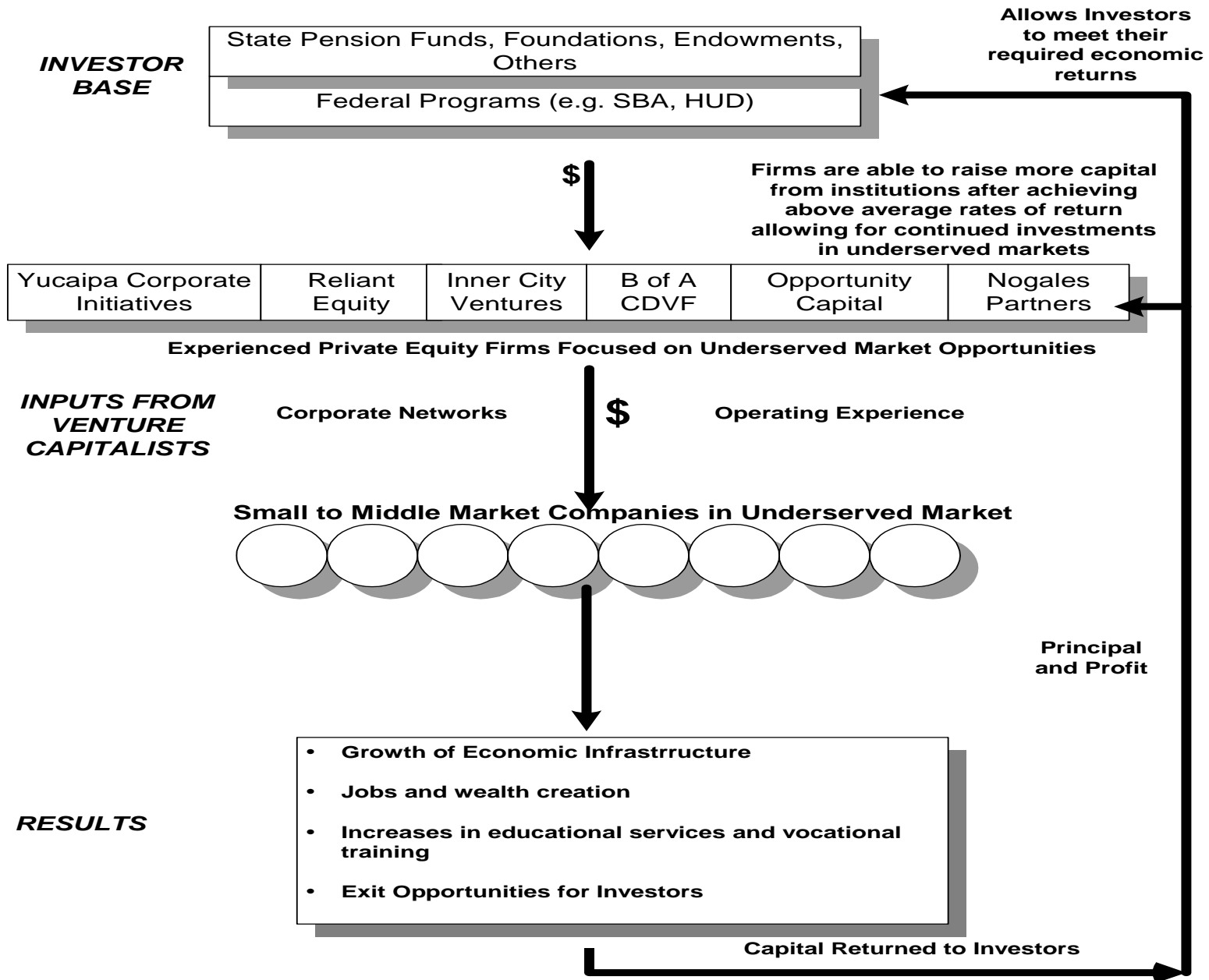
Partner	CI fund allocation \$ Millions	Investment focus
<i>American River Ventures, L.P.</i>	10	Venture capital in Sacramento and Central California
Bank of America 	100	Fund-of-funds targeting funds focused on underserved markets
 Draper Fisher Jurvetson	20	Venture capital in under-represented regions of California such as the Central Valley, the Central Coast, and the East Bay
Nogales Investors	25	Growth/expansion investment opportunities
Garage Technology Bank	10	Leverages its entrepreneur network and education program to provide seed capital to start-ups

COMMITMENTS TO CALIFORNIA INITIATIVE PARTNERS

(CONTINUED)

Partner	CI fund allocation \$ Millions	Investment focus
 Green Equity Investors	50	Buyout/expansion stage investment opportunities in consumer services
 Opportunity Capital	25	Invests in expansion / buyout capital in middle markets throughout California
Provender Capital 	25	Focuses on urban-oriented and under-sponsored opportunities
	10	Provides business advisory services and capital to companies in economically challenged, underserved areas
 Yucaipa Companies	200	Seeks corporate partnerships to relocate or expand their operations in underserved areas

The Deployment of Investment Capital in Underserved Markets



CALIFORNIA INITIATIVE PROGRAM UPDATE



Commitment Status

- 9 of 10 partnership agreements have closed
- \$450 million of \$475 million currently available for investment
- Approximately \$10 million have been invested in 10 companies
- A number of other deals are set to close in the next few months

Current Objectives

- **Educate market on how to access capital through California Initiative partners**
 - Criteria used to evaluate opportunities
 - Value added by investors
 - Return Expectations
- **Inform interested parties of other sources of public and/or private funding when appropriate (equity vs. debt)**
 - California Private Capital Industrial Bonds
 - CRA lenders (e.g. Bank of America, Wells Fargo)
 - California State Trade and Commerce Agency

*Investment Partner:
The Yucaipa Companies*



YUCAIPA AND CalPERS FORMED FUND TO TARGET UNDERSERVED COMMUNITIES

The Yucaipa Companies is a private equity firm with strong operational, financial and transactional expertise

- **Comprised of fifteen principals with extensive financial and operational experience**
- **Since 1986, completed 20 transactions with combined transaction value of \$14.5B and IRR of 46.1%**

Formed Yucaipa Corporate Initiatives (“YCI”) Fund with \$200M investment from California Public Employees’ Retirement System (“CalPERS”)

- **Create corporate partnerships with premier US businesses to invest in underserved communities**
- **Draw upon government, community and businesses to identify and create profitable investment opportunities that benefit underserved communities**
- **Earn high risk-adjusted returns**



YUCAIPA CORPORATE INITIATIVES FUND

Overview

Issue	Description
Transaction types	<ul style="list-style-type: none">• Corporate partnerships• Investments in mid-stage companies (including acquisitions, management buyouts, recapitalizations and restructurings)• Located in, serving or employing persons from underserved communities• Owned or managed by minorities or women• YCI will make \$5M to \$50M investments in transactions ranging from \$10M to \$300M in size
Target characteristics (at least one)	
Transaction size	

YCI will create empowering and profitable investment opportunities in underserved communities through corporate partnerships

Potential examples include partnering with

- Soft drink company to build a bottling plant in an inner city
- Bank to build back offices or call centers in urban/rural areas
- Automaker to co-invest in minority suppliers
- Restaurant franchisor to jointly fund franchisee finance company/fund
- Hotel developer to develop hotels in urban markets
- Major insurance company to create a completion bond company focused on minority contractors



ATTRACTIVE INVESTMENT OPPORTUNITIES EXIST IN UNDERSERVED COMMUNITIES

Competitive Advantages of Inner Cities

Strategic location

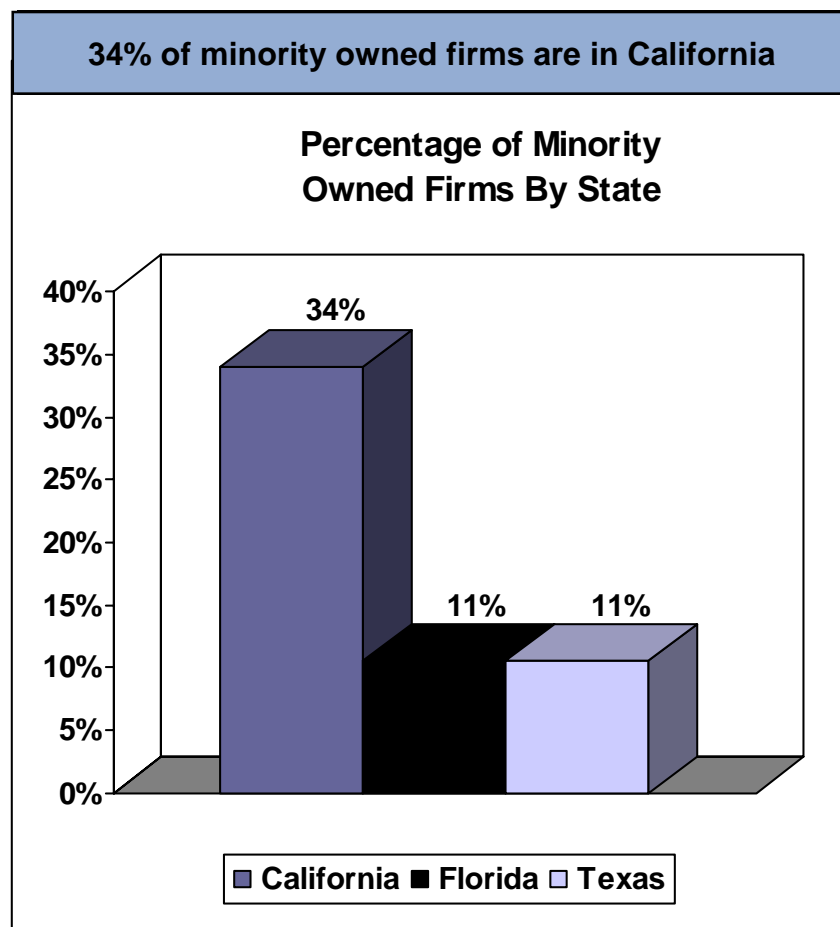
- Transportation and communication infrastructure
- Regional business clusters
- Central business districts

Large, underserved local market

- High percentage of ethnic minorities
- Large and growing population creates enormous market – \$85B annual retail spending
- Low retail penetration – 25% of inner city retail dollars spent outside local community

Underutilized work force

- Abundant workforce
- Low turnover

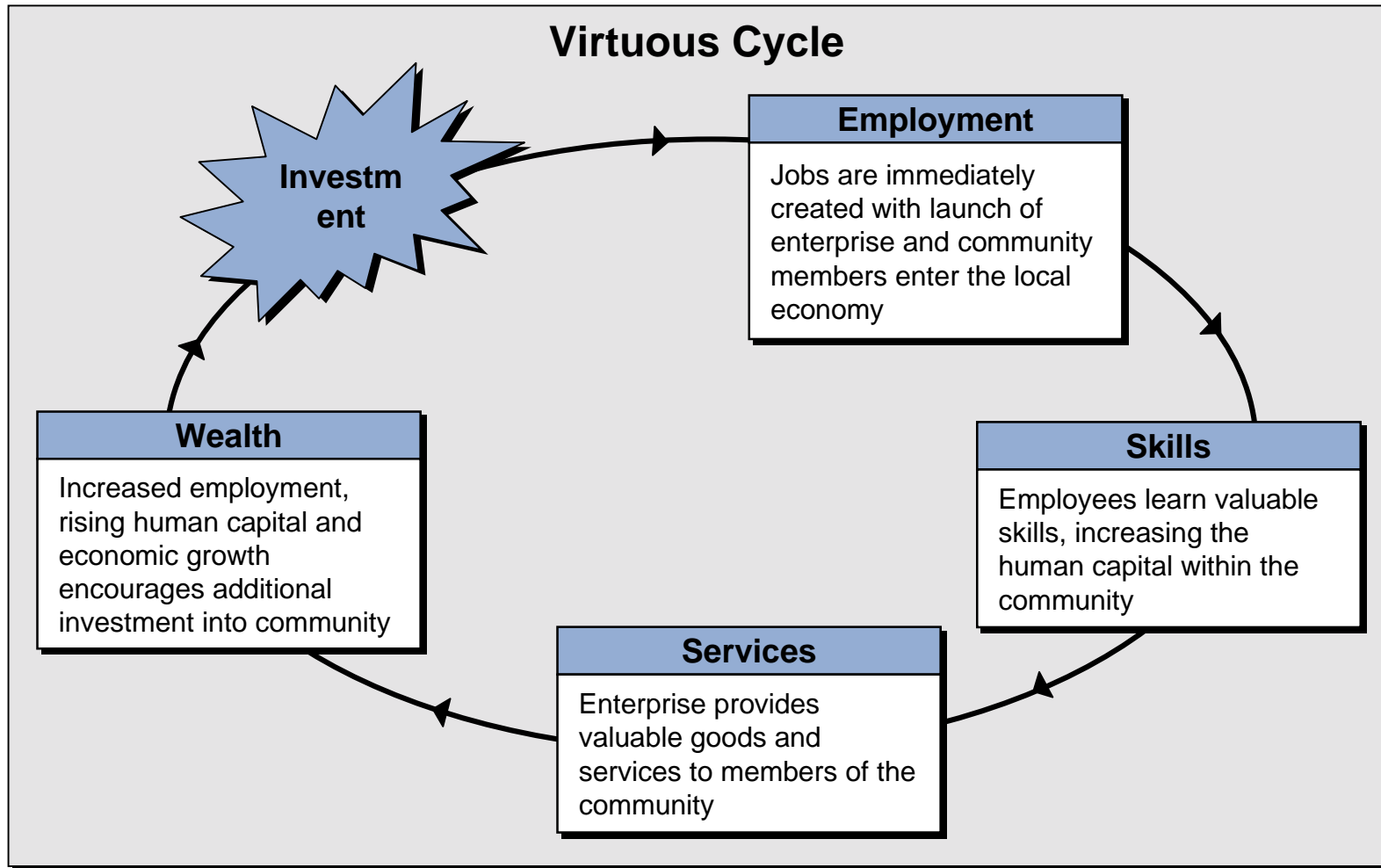


By working with both government and business, YCI will invest in underserved communities and leverage their competitive advantages



PRUDENT COMMUNITY INVESTMENTS YIELD LASTING SOCIAL DIVIDENDS

Enabling Communities to Develop in a Virtuous Cycle

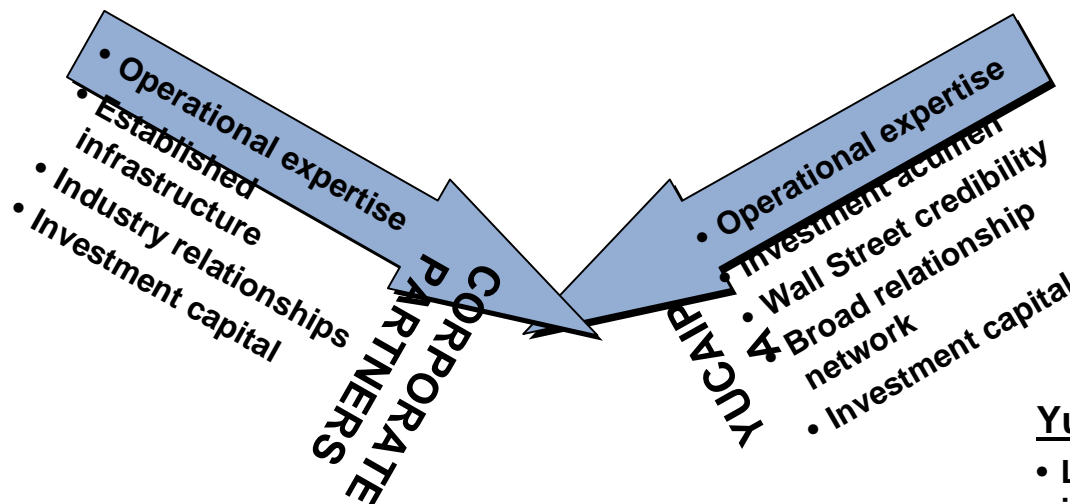




YUCAIPA WILL PARTNER WITH BOTH GOVERNMENT AND BUSINESS TO CREATE OPPORTUNITIES

Corporate Partners

- Co-invest on deals
- Potential customers of and suppliers to portfolio companies
- Source of deal flow, management expertise and market and regulatory knowledge



Government

- Conduit for communication with local community and development organizations
- Source of research, market and regulatory knowledge
- Powerful resource for business development and other support

GOVERNMENT

- Intimate knowledge of community needs and capabilities
- Extensive relationships across public & private sectors
- Understanding of regulatory processes

Yucaipa

- Long history of successful investments in underserved communities
- Proven investment track record
- Powerful relationship network across public, private and non-profit sectors
- Partnered with CalPERS to create Yucaipa Corporate Initiatives